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SUBJECT: PAKISTAN EARTHQUAKE: MBS GEARING UP FOR
RECONSTRUCTION ASSISTANCE IN ADVANCE OF OCTOBER 26 GENEVA
MEETING AND NOVEMBER 18 ISLAMABAD DONOR CONFERENCE

[11.](#) (SBU) Summary: Although the detailed needs assessment is just beginning, multilateral development banks (MDBs) are trying to come up with funds to support reconstruction needs following Pakistan's October 8 earthquake. The World Bank board will vote October 25 on a \$200 million package of earthquake-related enhancements to two existing Bank projects; the board will also take a first look at upcoming initiatives to provide an additional \$270 million for earthquake reconstruction (\$240 million in new funds for existing projects, \$30 million in reprogrammed funds from savings identified in existing programs). The Asian Development Bank (ADB) is trying to come up with \$200 million (\$80 million in grant aid, \$120 million in Asian Development Fund concessional lending), and is also trying to obtain GOP agreement to reprogram \$100 million in savings from some long-standing existing projects to earthquake relief. The International Monetary Fund (IMF) has, consistent with past practice in similar disasters, offered Pakistan a concessional emergency loan of \$375 million (or roughly one quarter of Pakistan's IMF quota); having successfully argued to the IMF it would not agree to Post-Program Monitoring by the Fund, the Government of Pakistan (GOP) must now decide if it wishes to draw on the loan. The Islamic Development Bank (IDB) has offered \$252 million in earthquake support, but \$200 million of that would be for import finance and lease finance at LIBOR or similar rates.

[12.](#) (SBU) The World Bank and ADB have just launched a jointly coordinated reconstruction needs assessment in the affected areas, with the participation of the GOP and major donors, and results will be presented to the GOP on November 5. That document will be the basis for a major Pakistan reconstruction conference scheduled in Islamabad for November 18, to which the GOP has reportedly already invited World Bank President Paul Wolfowitz and UNSYG Kofi Annan, who apparently has plans to be in the region at that time. End Summary.

[13.](#) (SBU) Comment: It appears that the MDBs appreciate the magnitude of the reconstruction job ahead, though their current plans may need to be scaled up if the needs assessment reveals greater financing needs than anticipated. Given the compelling humanitarian need and the GOP's record of strong economic management over the past few years, MDBs think that obtaining their boards' approval for these plans shouldn't be difficult. We are pleased to see that even if it is just a negotiating tactic, the GOP for now is holding a firm line, saying it does not want MDBs shifting resources away from existing projects designed to meet urgent development needs in social sectors and infrastructure. End comment.

WORLD BANK: IDENTIFYING \$470 MILLION

[14.](#) (SBU) John Wall, Country Director for Pakistan (protect), explained that the World Bank was looking at a near-term figure of roughly \$470 million for reconstruction and rehabilitation. This would be comprised of additional funds pumped into existing Bank projects in Pakistan, circumventing the need for the Bank's usually extensive review of new projects/designs, and facilitating the rapid disbursement of the new funds. Two of these project expansions would be voted on at the Bank's October 25 board meeting: \$50 million more for the Development Policy Credit for North West Frontier Province and \$150 million more for the Poverty Reduction Support Credit (a nationwide program that, inter alia, funds provincial operations in Azad Jammu Kashmir since AJK is not officially counted as one of Pakistan's provinces). The rationale for the infusion of new credit into these programs would be that since both programs were appraised and designed based on a three-year projection of provincial policies and expenditures, any significant change in those -- as the earthquake will certainly require for both AJK and NWFP -- will require adjustments of the projects' finances (so the provinces aren't forced to dislodge other necessary

expenditures in order to meet their obligations under these two Bank projects). The documentation for the expansion of these two projects was complete, and it was expected the Bank board would vote to support their expansion.

15. (SBU) Bank staff would also on October 25 be bringing before the board - not for approval, since the necessary paperwork hasn't been completed, but to give the board a heads up that these projects will be ready for approval within a few weeks - the expansion of several other existing Bank projects to include earthquake reconstruction: \$100 million more for the National Highways Project (although the highway project is designed to upgrade the main Karachi-Lahore artery, it would be expanded to cover three damaged roads connecting the quake-affected areas with central Pakistan where the main highway runs); \$100 million more for the Pakistan Poverty Alleviation Fund (to expand the operations of the 61 partner NGOs currently working on microcredit, community infrastructure and capacity building, and mobilize them to rebuild communities); and \$30-40 million more for the NWFP and AJK Community Infrastructure Project (to build out infrastructure including water, roads and schools). In addition, Bank staff would preview for the Board roughly \$30 million in undisbursed funds from existing projects that they hope to reprogram to support cash grants for livelihood support and housing reconstruction.

16. (SBU) Subsequent to this initial package, after the World Bank/ADB joint needs assessment is completed in November, the Bank will consider whether it is necessary to fund an Emergency Recovery Credit (ERC) for Pakistan. ERCs were announced for India after the Gujarat earthquake and for Sri Lanka after the tsunami, worth several hundred million dollars, but those were funded out of undisbursed balances on Bank projects in those countries. Since undisbursed balances on Bank projects in Pakistan totals only \$30 million (see para 4), any funding for an ERC for Pakistan would have to come from new funds.

17. (SBU) Wall said it wasn't clear to him if the Bank's plans would be announced at the Geneva conference on October 26, noting that strictly speaking the conference was about raising money for the United Nations' flash appeal for relief rather than for longer term reconstruction (this theme reappeared in discussions with most MDBs). It wasn't even clear who from the Bank would be attending the Geneva conference, but not the Bank's President. That said, Wall noted the timing of the October 25 Board meeting would allow the Bank to announce it had identified \$470 million in reconstruction financing for Pakistan's reconstruction, and SUBJECT: PAKISTAN EARTHQUAKE: MDBS GEARING UP FOR that the Bank's Board had already approved \$200 million in expanded projected finance.

ADB: LIKELY TO OFFER \$200-300 MILLION

18. (SBU) ADB's Ed Haugh (protect) said ADB was trying to identify earthquake reconstruction funds, since its three-year allocation for Pakistan was already settled and the GOP had made clear it didn't want any cannibalization of projects already in that three-year plan. In view of that, the ADB was planning to come up with \$200 million in new money -- \$80 million in grant aid, and \$120 million from the Asian Development Fund concessional resource (on IDA-equivalent terms). Beyond that, the ADB was hoping to persuade the GOP to agree to identify savings of \$100 million in some long-standing, lingering projects dating back to the early 1990's, and reprogram the money from those projects to earthquake assistance (but not cancel those projects). Longer term, the ADB was thinking of ways it could rejigger existing projects to meet reconstruction needs -- for example, the existing NWFP social sector project could shift its focus from programs to school reconstruction.

19. (SBU) Asked how this compared to the kind of assistance ADB provided in response to the tsunami, Haugh explained that after the tsunami, the ADB took the unprecedented step of dipping into its own resources to fund a \$600 million Tsunami Relief Fund. The largest recipient, Indonesia, ended up receiving roughly \$290 million from that Fund, so if the ADB were to announce \$200-300 million for Pakistan earthquake relief, the amount would be roughly comparable. Haugh mentioned the Tsunami Fund currently contained \$30-40 million in unspent funds, which might be added to the Pakistan earthquake relief (alternatively, the fund might be re-designated the Asian Emergency Fund).

10. (SBU) Haugh noted that while the size of contributions was important, both for reconstruction and for sending a political message of support, what was equally important was the effectiveness of the aid--specifically, that it materialize quickly, and be spent within a year or two. Gujarat earthquake aid had been effective in this regard, particularly because there was good local institutional capacity to build on for rapid disbursement; tsunami

assistance had been less effective. Cash grants -- for rubble clearance and for housing -- would be critical. Haugh noted that NWFP, whose capital Peshawar was not seriously damaged by the earthquake, would be in a much better position to administer assistance than AJK, whose capital Muzaffarabad was one of the worst hit cities.

IMF: HAS OFFERED \$375 MILLION EMERGENCY LOAN

11. (SBU) The IMF's ResRep Henri Lorie (protect) confirmed press reports that IMF Managing Director Rato had, on a brief October 17 visit to Pakistan, extended a \$375 million emergency assistance loan, with a 3-5 year repayment term and 0.5 interest rate. This amount would be roughly equivalent to 25 percent of Pakistan's IMF quota; extension of a Fund loan of this magnitude is fairly customary following major natural disasters (both Sri Lanka and the Maldives borrowed on these terms from the Fund after the tsunami, and Turkey did after its earthquake). Lorie noted the GOP had been adamant with Rato it would not draw on such a loan if it would involve Post-Program Monitoring (PPM) (which had also been a sticking point when the GOP concluded its special IMF program in December 2004 -- and the Fund had relented). Rato had said given the generally sound state of Pakistan's macroeconomy, the Fund would not insist on PPM (Lorie noted this was a judgment call. Since Pakistan is already borrowing close to 100 percent of its IMF quota, borrowing an additional 25 percent would push Pakistan's borrowing to the level where the Fund could insist on PPM, but given IMF confidence in the GOP's economic policy team, Rato did not think it necessary). This exchange has already been reported in the Pakistani press, with Pakistan's refusal to accept PPM being characterized as a point of national honor (as was the "breaking of the begging bowl" associated with ending of the IMF program in 2005). The GOP even asked the IMF for written confirmation of Rato's statement that the Fund would not insist on PPM--an odd request to make of the Fund Managing Director, Lorie noted, but one that would likely be addressed in Rato's letters to his GOP interlocutors thanking them for a productive visit. This "victory" could give the GOP the cover it needs to draw on the IMF emergency loan.

12. (SBU) Mechanically, Lorie said no further IMF action was necessary to offer the loan; all that remained was for the GOP to send in a letter formally requesting it. (Note: we understand such a loan would require IMF board approval. End note.) Therefore, Lorie noted, it was possible that the Fund might choose the occasion of the Geneva conference to officially confirm it has extended such a loan to Pakistan. But Lorie noted the U.N. conference on relief was not really a Fund function, and he was not even aware if an IMF representative would attend.

IDB: HAS ANNOUNCED AID PACKAGE TOTALLING \$252 MILLION

13. During an October 23 meeting with Prime Minister Shaukat Aziz, IDB President Ahmad Mohammed Ali (accompanied by OIC SecGen Ekmeluddin Ihsanoglu) announced that IDB would provide \$251.6 million to Pakistan as emergency assistance. \$1.6 million of that amount would be grant funding; \$50 million as a Sharia interest-free loan (but up to a 1.25% service charge on actual expenses); \$100 million would be lease finance (for such things as equipment purchases) with a rate of 3.825 percent, five-year grace period, and 25 year repayment term; and \$100 million would be trade finance for the import of petroleum products, with a concessional rate of one year LIBOR (currently approx 4.4%) and 18 month repayment. IDB Resident Rep Shahid Miah reported that IDB President Ali initially maxed out his individual authority by offering \$11 million in emergency assistance and then approached the IDB Board. The IDB Board, "in the spirit of Ramadan," expanded the package to \$251.6 million. When asked about the relatively high interest rates, Miah explained that while not competitive with other MDBs, they were lower than what IDB normally charges (approximately 5% for petroleum products and 5.1% for lease financing). Miah also noted that OIC financing includes a preference for purchasing products from OIC countries, including in cases where lowest bids may be
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from non-OIC countries.

NEXT STEPS: PREPARING FOR NOVEMBER 18 DONORS CONFERENCE ON RECONSTRUCTION

14. (SBU) The MDBs and major donors have agreed on a needs assessment that will begin imminently. Of the 15 functional areas the needs assessment will survey, the World Bank will take the lead on nine and the ADB will take the lead on six; GOP technical experts will participate in all the teams, and the project coordinators will meet on a weekly basis with de facto Finance Minister Salman Shah and Chairman of the new

Earthquake Reconstruction and Rehabilitation Authority LTG Zubair. The assessment team will present its report to the GOP on November 5. That will be followed by a November 18 Donors conference in Islamabad on reconstruction. Prime Minister Aziz has already asked World Bank President Paul Wolfowitz to represent the Bank at that event, and has also invited Kofi Annan, who reportedly has plans to be in the region at that time.

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